Nova Scotia Municipal Finance Corporation

28th Annual Report
2008

Nova Scotia

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Message from the Chair

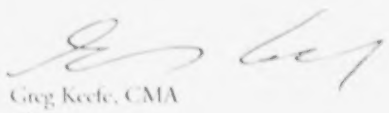
As Chair of the Nova Scotia Municipal Finance Corporation it is my pleasure to present the Nova Scotia Municipal Finance Corporation's 28th Annual Report for the 2007-08 fiscal year.

The Corporation had another active year for 2007-08 with its annual debenture issuance exceeding $100 million. The Corporation placed two debenture issues for $62.4 million and $77.6 million resulting in total long term loan activity of $140.0 million during the fiscal year, issued $2.0 million in short term loans, and ended the fiscal year with a net income of $328,561.

The Corporation also continued its leadership role in the area of financial management capacity building. Through its cooperation with the Association of Municipal Administrators of Nova Scotia and the Nova Scotia Department of Service Nova Scotia & Municipal Relations six recommended financial best practices for Nova Scotia municipalities were developed in 2007-08.

The Corporation continues to focus on the results of the August 2004 client evaluation of its services and programs to ensure that the goals and objectives of the Corporation match those of our clients. The results confirmed that our clients are satisfied with the service we provide for low cost long term capital financing. They also supported the Corporation's movement toward financial management capacity building in municipalities in Nova Scotia. To this end, the Corporation has been a partner in developing best practices for financial management (referred to above) and has developed a debt affordability model, which a number of municipalities are piloting. Results from the survey have been used as benchmarks for a number of performance measures that have been incorporated in the Corporation's Business Plan.

At this time I would like to thank the Board Members, the staff of the Corporation and the staff of the Provincial Departments of Service Nova Scotia & Municipal Relations, Finance, and Justice for their advice and assistance throughout the year.



Greg Keefe, CMA
Chair

How The Corporation Functions

Authority

The Nova Scotia Municipal Finance Corporation was established by an Act of the Legislature of the Province of Nova Scotia in 1979, being Chapter 301 of the Revised Statutes of Nova Scotia, 1989. The legislative authority for the Corporation can be found in the Municipal Finance Corporation Act.

Mission and Purpose

The mission of the Corporation is to provide financing to its clients for approved capital projects at competitive rates, within acceptable risk parameters, and to provide advice and assistance to clients regarding financial management.

The Corporation was created with the objective of providing financial assistance for municipalities, municipal enterprises, school boards, and hospitals through a centralized borrowing authority. The way in which the Corporation fulfils its purpose is through the issuance of pooled debenture issues. Pooling of borrowing requirements eliminates the need for individual municipalities to negotiate and administer their own debenture issues.

All municipalities and municipal enterprises must finance their external capital requirements through the Corporation. Exceptions exist for projects that are financed through short-term financing and certain projects for which funds may be borrowed from other governments. Most school board and hospital capital projects are financed directly by the Province of Nova Scotia.

The Corporation partners with the Association of Municipal Administrators of Nova Scotia and the Department of Service Nova Scotia & Municipal Relations, as well as with other professional associations in the building of financial management capacity in local governments across Nova Scotia.

Administration

The Corporation is governed by a Board of Directors appointed by the Governor in Council. The Municipal Finance Corporation Act requires that 40 per cent of the Board be municipal representatives. There are currently five Directors on the Board: two members are senior public servants, two members are appointed upon the recommendation of the Union of Nova Scotia Municipalities, and the fifth member is appointed from the community at large.

The Corporation is self-funded. The Minister of Service Nova Scotia & Municipal Relations is required, by legislation, to approve the administrative budget. The Corporation levies fees on loans made to its clients to help offset the administrative expenses of the Corporation. These fees coupled with interest revenue earned by the Corporation on its short-term investments ensure that the Corporation operates in a positive position.

Support staff and resources of the provincial Departments of Finance and Service Nova Scotia & Municipal Relations have been provided to the Corporation. The Corporation contracts with the Department of Justice for the provision of legal services. The advice and assistance given by all three provincial departments are a valuable contribution to the operation of the Corporation.

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10 South, Maritime Centre
1505 Barrington Street
Halifax, Nova Scotia B3J 3K5

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P.O. Box 850, Station "M",
Halifax, Nova Scotia B3J 2V2

Telephone: (902) 424-4590
Fax: (902) 424-0525
Website: http://www.gov.ns.ca/nsmfc/

Directors And Officers *(as at March 31, 2008)*

Directors of the Corporation

Greg Keefe, CMA, Chair
Deputy Minister
Department of Service Nova Scotia
& Municipal Relations

Keith Hunter
Warden
Municipality of the County of Cumberland

Donald Zwicker
Councillor
Municipality of the District of Lunenburg

Byron Rafuse
Controller
Nova Scotia Department of Finance

Rick Farmer, CGA
Business Consultant
Sydney, Nova Scotia

Officers of the Corporation

Chair
Greg Keefe, CMA
Deputy Minister
Department of Service Nova Scotia
& Municipal Relations

Chief Executive Officer and Treasurer
R. Mark Gilbert, MBA, PhD

Corporate Secretary
Mark Peck
Municipal Advisor
Department of Service Nova Scotia
& Municipal Relations

General Counsel
Vacant

Assistant Treasurer
Roy Spence
Director, Liability Management
Department of Finance

Directors' Report

Planning for the Corporation is formulated in accordance with the clients' needs. The Corporation must ensure that it has ready access to capital markets and that it has the financial and administrative capacity to respond to local governments' demand for capital infrastructure financing. In order to ensure that the Corporation is successful in meeting the demand for capital infrastructure financing, the Corporation's Board of Directors approves a Business Plan on an annual basis.

The 2007-08 Business Plan reaffirms our mission statement to provide competitive capital financing for approved projects to municipalities, municipal enterprises, school boards, and hospitals.

Business planning is an evolving process. Outcomes, measures, and indicators are evaluated during the course of the year for effectiveness and responsiveness to the Corporation's longer-term strategic vision. Through the evaluation process, outcomes and measures may be changed to ensure that they are within the Corporation's area of responsibility, the Corporation can influence the outcome and the Corporation's performance can be measured. Data gathered from a 2004 client survey provided the Corporation with information useful in determining benchmark data for performance measurement in our Business Plans.

The strategic goals of the Corporation are supported by the operational priorities. The operational context for the Corporation's activities are strongly influenced by the ability to:

- identify its client needs and respond to them,
- keep abreast of developments in local government capital finance
- maintain financial self-sufficiency

The Annual report reflects the Corporation's results as measured against the 2007-2008 Business Plan. Along with measuring the longer-term strategic goals of the Corporation, the Annual Report also includes operational results. These operational measures are important in ensuring that the Corporation can meet its priorities and goals.

Business Plan and Accountability Report

The Business Plan features three strategic goals, which are identified below. Outcomes, measures and results are also included.

Strategic Goal 1

To provide capital infrastructure financing to our clients at the lowest available cost, within acceptable risk parameters, to meet their particular debt structure and timing needs.

Outcome:
Competitive financing to our clients in a timely and responsive manner

Measures:
Client satisfaction rates with cost, timing, term and structure of MFC loans

Targets:
A 90% to 100% client satisfaction rate by fiscal 2007-2008. Regular review of loan procedures and maintaining credit enhancement through access to the provincial guarantee

Operational results:

- Issued 44 loans to 31 municipalities, 4 municipal enterprises, and 1 district health authority.
- Issued $140,040,621 in debentures and on-loaned a similar amount to clients
- Administered $1,978,800 in short-term financing pending issuance of a debenture
- Administered $689.6 million in outstanding debentures, which included the payment of debenture interest
- Administered $689.6 million in outstanding loans to municipalities and hospitals

Strategic Goal 2

To ensure access to capital markets through prudent management of all financial aspects of the Corporation, which includes credit risk and asset/liability management.

Outcome:
Ensure a sustainable source of funding is available for financing requests from clients and to ensure the operation of the Corporation.

Measures:
Client default rates, matching of assets and liabilities, and adoption of a risk management strategy.

Targets:
No defaults, maintain matched asset and liability amounts, adopt risk management plan.

Operational results:

- Reviewed all municipal requests with Service Nova Scotia and Municipal Relations to ensure that the loans to a municipal unit did not pose a credit risk to the Corporation
- Managed asset and liabilities of the Corporation to mitigate risk and to ensure that the Corporation did not incur any negative carry costs
- Managed the administration budget of the Corporation prudently and ended the fiscal year with a net income of $328,561 and a reserve fund balance of $5.94 million
- A risk management framework adopted

Strategic Goal 3

To help build financial management knowledge in municipalities and promote municipal capital project planning and financing.

Outcome:
Client awareness of new financial products and features that may help municipal governments; improved MFC products that respond to client needs; and increased financial management knowledge in municipalities.

Measures:
Percentage of municipal units that are satisfied with products being offered by the MFC, and existence of effective programs directed at client needs.

Targets:
A 90% to 100% client satisfaction rate by fiscal 2007-2008. Development of programs that meet client needs.

Operational results:

- Continued a joint committee with the Association of Municipal Administrators of Nova Scotia and the Department of Service Nova Scotia and Municipal Relations to promote financial management capacity with a commitment of human and financial resources
- Developed six best practices modelled on the Government Finance Officers Association (GFOA) recommended best practices, these best practices have been adapted for use by local governments in Nova Scotia
- Developed a marketing and promotions strategy to encourage the implementation of recommended practices in Nova Scotia municipalities
- Continued promoted the MFC's debt affordability to municipal units.
- Worked with three municipalities who volunteered to pilot the Capital Investment Plan template developed by a Provincial/Municipal/MFC committee.
- Sponsorship of finance professionals in two municipal units to attend the annual GFOA Conference
- Continued participation on committees (municipal and provincial)

Market Conditions 2007-2008

Economic Environment

The Canadian economy continued to struggle through the 2007-2008 fiscal year. There was little change in the real GDP growth, with a 2.1% average pace during the previous year. While the domestic economy remained very robust, the strength of the Canadian dollar and a slowing U.S. economy B the result of sub-prime credit concerns and a collapsing housing market B combined to deliver record-weak real net exports. The Canadian dollar was buoyed by broad U.S. dollar weakness and soaring commodity prices. At March 31, 2008, the Bank of Canada noon exchange rate stood at 1.0279 versus 1.1529 at March 30, 2007 and in early November, reached a record 0.9170.

Interest Rates

Interest rates moved lower over the course of the 2006-2007 fiscal year, though in an erratic fashion. Bond yields initially rose through June in both Canada and the U.S., before falling sharply after the onset of the credit crunch in the summer. The Federal Reserve slashed the Federal funds target rate by 3% from September through the end of March, while the Bank of Canada trimmed its target overnight rate by 1% over the same period. On long, thirty year Government of Canada Treasury yields decreased from 4.20% on March 30, 2007 to 3.94% on March 31, 2008 and thirty year U.S. Treasury yields fell from 4.85% at the beginning of the fiscal year to 4.29% at its end.

The Province of Nova Scotia's spreads continued to remain strong, relative to their provincial peers, and the Nova Scotia Municipal Finance Corporation's borrowing costs, which are based on the Province's cost of funds, remained attractive throughout the fiscal year.

The Corporation issued two pooled debenture issues in 2007-08. The all-in costs of funds to our clients are detailed below:

Spring Issue		**Fall Issue**	
settled June 1, 2007		*settled October 17, 2007*	
5 years	4.62%	5 years	4.89%
10 years	4.64%	10 years	4.99%
15 years	4.73%	15 years	5.12%
20 years	4.77%	20 years	5.18%
All-in cost	4.72%	All-in cost	5.02%

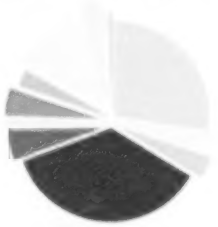
Overview of Loan Portfolio

Loans to Municipal Units, School Boards and Hospitals

The Corporation's loan portfolio consists of loans to municipal units and enterprises that are serviced or guaranteed by Nova Scotia municipalities, loans to school boards that are serviced by the Province of Nova Scotia, and loans to hospitals /health authorities guaranteed by the Province. There are no arrears. The Nova Scotia Department of Service Nova Scotia & Municipal Relations performs the credit checks using debt policy guidelines approved by the Minister. The Minister approves all capital borrowing requests by municipal units and municipal enterprises. The Corporation's interest rate risk is minimized by matching the interest rates, term, and features of its debenture issues with those on the loans it makes to its clients.

During the year, long term loans totalling $140,040,621 were made to 31 municipal units, 4 municipal enterprises, and 1 district health authority. They were used for the purposes as shown.

Loans Made during the Year



Purpose

Water	27.7%
Schools	0.1%
Hospitals	2.3%
Sewer	3.7%
Streets	35.7%
Buildings	5.4%
Land	0.6%
Electric	0%
Equipment	4.9%
Recreation	2.8%
Solid Waste	13.3%
Sewage Treatment	2.6%
Transit	0.1%
Other	0.7%

Jurisdiction

Rural	16.0%
Regional	66.2%
Town	10.5%
Municipal Enterprise	6.9%
District Health Authorities	0.4%

Note: The amount of debentures issued during the year approximates the long term loans made.

Schedule of New Loans by Purpose *(By Jurisdiction)*

Purpose	Regional	Town	Rural	Municipal Enterprises	Health Authority	Total	Percent
Water	$ 19,108,680	$ 4,632,071	$ 5,913,000	$ 9,155,400	$ 0	$ 38,809,151	27.71%
Schools	0	198,000	0	0	0	198,000	0.14%
Hospitals	0	1,100,000	1,600,000	0	507,700	3,207,700	2.29%
Sewer	2,218,257	952,086	2,021,000	0	0	5,191,343	3.71%
Streets	38,828,680	4,934,566	6,240,000	0	0	50,003,246	35.71%
Buildings	836,589	1,709,243	4,503,000	540,000	0	7,588,832	5.42%
Land	373,188	0	495,000	0	0	868,188	0.62%
Equipment	6,607,607	239,140	0	0	0	6,846,747	4.89%
Recreation	3,059,522	834,022	0	0	0	3,893,544	2.78%
Solid Waste	17,542,014	140,258	973,455	0	0	18,655,727	13.32%
Sewage Treatment	3,064,692	0	625,000	0	0	3,689,692	2.63%
Transit	146,767	0	0	0	0	146,767	0.10%
General	941,684	0	0	0	0	941,684	0.67%
Totals	**$ 92,727,680**	**$ 14,739,386**	**$ 22,370,455**	**$ 9,695,400**	**$ 507,700**	**$ 140,040,621**	
Percent	**66.21%**	**10.53%**	**15.97%**	**6.92%**	**0.36%**	**100%**	**100%**

Projects Administered

The accumulated loans outstanding at March 31, 2008 amount to $689.5 million, comprising $679.6 million to 69 municipal units and enterprises and $9.9 million to two district health authorities. Effective March 31, 1993, the Province of Nova Scotia assumed all loans related to shareable school and hospital construction. The following table shows the total loans outstanding at the end of each of the last 10 fiscal years, broken down by category.

Ten Year History of Loans to Municipal Units, School Boards and Hospitals

New Long-term Loans during the year:
Fiscal year ending at March 31st (millions)

	Municipal	Hospitals	School Boards	Total
1999	105.1	–	–	105.1
2000	84.5	–	2.5	87.0
2001	52.4	–	–	52.4
2002	49.9	–	–	49.9
2003	84.6	11.0	–	95.6
2004	73.1	–	–	73.1
2005	167.7	–	–	167.7
2006	112.0	–	–	112.0
2007	108.3	–	–	108.3
2008	139.5	0.5	–	140.0

Loans outstanding at Year End:
Fiscal year ending at March 31st (millions)

	Municipal	Hospitals	School Boards	Total
1999	493.7	53.9	116.2	663.8
2000	508.9	35.3	68.3	612.5
2001	463.4	11.8	25.0	500.2
2002	452.2	10.9	18.7	481.8
2003	469.7	11.0	2.2	482.9
2004	481.5	10.8	0.7	493.0
2005	579.5	10.5	0.3	590.3
2006	611.1	10.2	–	621.3
2007	632.4	9.8	–	642.2
2008	679.6	9.9	–	689.5

Outstanding Borrowing Program

Funds totalling $140.0 million for loans to municipal units, municipal enterprises, and one district health authority were raised through two issues in the Canadian domestic market. The two issues were placed privately with the Province of Nova Scotia which purchased a $62.4 million issue in June 2007 and a $77.6 million issue in October 2007. Interest rate coupons ranged from 4.38 per cent to 5.21 per cent.

Other Programs

The Corporation offers borrowing programs beyond long-term financing via debenture issue as well as financial management capacity building programs to assist municipal units with long-term financial planning.

Borrowing Programs

The Board of Directors has long supported a short-term borrowing program for its clients. The Corporation's reserve fund is used to provide short-term loans to its clients that have completed their capital project and are awaiting participation in the debenture issue. The terms of the short-term loan are for a period of not greater than one year; interest is charged at a rate of Bank of Montreal's prime lending rate less 1 per cent. The Corporation loaned $1.98 million to 6 municipalities for water, roads, and municipal buildings.

Schedule of Outstanding Loans

By Jurisdiction	Principal March 31/07	New Loans	Principal Repaid	Principal March 31/08
Regionals:				
Halifax	$ 350,873,852	$ 28,367,000	($49,588,346)	$ 329,652,506
Cape Breton	32,514,820	63,242,000	(4,737,297)	91,019,523
Queens	6,120,403	1,118,680	(769,293)	6,469,790
Total Regionals	**$ 389,509,075**	**$ 92,727,680**	**($55,094,936)**	**$ 427,141,819**
District Health Authorities	**$ 9,823,480**	**$ 507,700**	**($ 382,633)**	**$ 9,948,547**
Towns				
Amherst	$ 4,663,490	$ 582,500	($ 636,339)	$ 4,609,651
Annapolis Royal	458,682	0	(73,316)	385,366
Antigonish	3,882,014	0	(318,004)	3,564,010
Berwick	1,430,868	0	(290,611)	1,140,257
Bridgetown	577,769	433,137	(82,591)	928,315
Bridgewater	5,993,822	0	(769,411)	5,224,411
Canso	800,110	0	(33,198)	766,912
Digby	1,048,902	162,840	(167,337)	1,044,405
Hantsport	1,712,897	147,000	(134,763)	1,725,134
Kentville	7,536,930	608,900	(781,840)	7,363,990
Lockeport	153,900	0	(20,100)	133,800
Lunenburg	2,917,000	0	(217,500)	2,699,500
Mahone Bay	497,000	0	(66,000)	431,000
Middleton	1,054,358	79,000	(150,632)	982,726
Mulgrave	368,040	30,000	(116,840)	281,200
New Glasgow	5,690,050	798,727	(1,207,431)	5,281,346
Oxford	1,799,180	120,000	(224,476)	1,694,704
Parrsboro	43,430	0	(8,686)	34,744
Pictou	1,074,044	100,000	(80,044)	1,094,000
Port Hawkesbury	8,740,950	0	(552,930)	8,188,020
Shelburne	575,050	308,258	(68,150)	815,158
Springhill	2,974,266	3,376,000	(540,395)	5,809,871
Stellarton	16,229,698	0	(807,143)	15,422,555
Stewiacke	1,843,092	0	(112,936)	1,730,156
Trenton	414,899	0	(182,964)	231,935
Truro	6,164,750	2,600,000	(1,574,250)	7,190,500
Westville	1,351,084	180,484	(107,187)	1,424,381
Windsor	2,077,041	2,179,240	(186,042)	4,070,239
Wolfville	4,493,041	350,000	(675,553)	4,167,488
Yarmouth	3,123,333	2,766,700	(1,231,667)	4,658,366
Total Towns	**$ 89,689,690**	**$ 14,822,786**	**($11,418,336)**	**$ 93,094,140**

Schedule of Outstanding Loans *continued*

By Jurisdiction	Principal March 31/07	New Loans	Principal Repaid	Principal March 31/08
Rurals				
Municipalities				
Annapolis	$ 2,502,139	$ 3,863,000	($ 1,787,213)	$ 4,577,926
Antigonish	969,165	1,200,000	(69,167)	2,099,998
Barrington	1,613,273	0	(190,477)	1,422,796
Chester	7,735,167	0	(1,446,436)	6,288,731
Clare	950,000	0	(118,750)	831,250
Colchester	12,265,000	2,830,000	(2,762,547)	12,332,453
Cumberland	1,352,335	0	(130,052)	1,222,283
Guysborough	2,296,500	0	(124,000)	2,172,500
Hants East	14,547,245	9,080,000	(1,656,565)	21,970,680
Hants West	134,800	0	(33,700)	101,100
Inverness	150,000	2,000,000	(150,000)	2,000,000
Kings	8,591,122	2,311,000	(1,417,258)	9,484,864
Lunenburg	17,385,000	0	(918,800)	16,466,200
Pictou	378,898	0	(204,782)	174,116
Richmond	3,846,666	0	(326,667)	3,519,999
Shelburne	142,000	348,455	(14,200)	476,255
Victoria	1,485,000	0	(133,500)	1,351,500
Yarmouth	652,500	0	(67,500)	585,000
Villages				
Baddeck	1,062,631	0	(67,493)	995,138
Bible Hill	252,000	0	(36,000)	216,000
Chester	121,000	0	(11,000)	110,000
Kingston	305,000	0	(52,500)	252,500
New Minas	75,000	0	(25,000)	50,000
St. Peters	380,333	63,000	(29,900)	413,433
Port Williams	66,000	450,000	(6,000)	510,000
Westport	16,500	50,000	(5,500)	61,000
Weymouth	0	175,000	0	175,000
Total Rurals	**$ 79,275,274**	**$ 22,370,455**	**($11,785,007)**	**$ 89,860,722**
Municipal Enterprises				
Bridgewater PSC	3,890,000	0	(290,000)	3,600,000
Digby Area Recreation	0	300,000	0	300,000
Digby Housing Corp.	603,000	0	(25,000)	578,000
Glen Haven Manor	926,600	0	(38,000)	888,600
Halifax Water	65,947,250	9,072,000	(13,261,250)	61,758,000
Lunenburg Home	866,290	0	(43,845)	822,445
R.K. MacDonald	858,302	240,000	(210,794)	887,508
Seaview Manor	514,500	0	(85,750)	428,750
Villa Acadienne	290,100	0	(51,300)	238,800
Total Enterprises	**$ 73,896,042**	**$ 9,612,000**	**($14,005,939)**	**$ 69,502,103**
Total Loans	**$642,193,561**	**$140,040,621**	**($92,686,851)**	**$689,547,331**

Financial Management Capacity Building Programs

Financial Management Best Practices:

The NSMFC and the Association of Municipal Administrators of Nova Scotia (AMA) have formed a joint committee with the goal of developing financial management best practices for use by municipalities in Nova Scotia.

The committee strives to be representative of all municipalities in the province. It includes finance professionals working in towns, regional, and rural municipalities, as well as representatives from the Department of Service Nova Scotia and Municipal Relations. The committee uses recommended practices that have been developed by the Government Finance Officers Association (GFOA) and adapts them to fit to Nova Scotia legislation and practices. This year was the committee's fifth year of operation and six best practices were developed in fiscal 2007–2008.

Long Term Financial Planning

The NSMFC developed a Debt Affordability Model to assist municipalities in capital planning and debt management, which the Town of Kentville is currently using. Four other municipalities have responded to the MFC stating they are facing human resources and time constraints to fully utilize this tool to its full potential.

The NSMFC is also participating in the Capital Investment Plan initiative, which was developed in partnership with the Province of Nova Scotia. In fiscal 2007–2008, there were three municipal participants that tested the Capital Investment Plan. The Town of Amherst, the Municipality of the District of Barrington, and the Town of Wolfville were integral in creating a comprehensive Capital Investment Plan.

Municipal Finance Training and Capacity Building Program

The purpose of the Municipal Finance Training and Capacity Building Program is

- to enhance the quality of municipal financial services provided by local government finance professionals in Nova Scotia by exposing them to current issues, best practices, and trends in Canadian and international local government finance
- to encourage the development of a network of municipal finance specialists in Nova Scotia for the purpose of sharing knowledge and best practices

The NSMFC, in partnership with the Department of Service Nova Scotia and Municipal Relations, sponsors two financial professionals working in municipal government in Nova Scotia to attend the annual GFOA Conference. This international conference is dedicated to the development of financial excellence in local government, through the use of best practices and benchmarking.

Management's Responsibility for Financial Statements

The financial statements of the Nova Scotia Municipal Finance Corporation are the responsibility of management and have been prepared in accordance with PSAB and CICA's accounting principles, which are generally accepted in Canada, applied on a basis consistent with that of the preceding year. The financial information presented elsewhere in the Annual Report is consistent with the financial statements and the underlying information from which these financial statements were prepared.

The financial statements have been examined independently by the external auditors, KPMG LLP, whose responsibility it is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditors Report, attached to the financial statements, outlines the scope of their examination and contains their opinion.

The Board of Directors have approved the financial statements and all information in the Annual Report.. The external auditors have full and free access to the Board, with and without the presence of management, to discuss auditing, internal control, accounting policy, and financial reporting matters.

Auditors' Report to the Directors

To the Directors of Nova Scotia Municipal Finance Corporation

We have audited the balance sheet of Nova Scotia Municipal Finance Corporation as at March 31, 2008 and the statement of revenue, expenditure and reserve fund for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Corporation taken as a whole. The supplementary information included in the schedule of administrative expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The comparative figures for 2007 were reported on by another firm of chartered accountants.

KPMG LLP
Chartered Accountants
Halifax, Canada
April 25, 2008

Balance Sheet

March 31, 2008, with comparative figures for 2007

	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,157,896	$ 5,753,494
Accrued interest receivable	10,994,036	10,021,832
HST receivable	1,317	1,031
Accounts receivable	-	353
Principal due within one year on loans to units (note 3)	90,593,470	92,686,851
	107,746,719	108,463,561
Loans to units due beyond one year (note 3)	598,678,931	549,122,554
	$ 706,425,650	$ 657,586,115
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 120,769	$ 32,155
Accrued interest payable	10,961,504	9,992,434
Due to municipal units	-	42,500
Principal due within one year on debentures (notes 3 & 4)	90,596,807	92,662,848
	101,679,080	102,729,937
Employee obligations (note 5(a))	95,406	87,636
Debentures due beyond one year (note 4)	598,710,682	549,156,621
	700,485,168	651,974,194
Equity:		
Reserve fund	5,940,482	5,611,921
	$ 706,425,650	$ 657,586,115

See accompanying notes to the financial statements.

On behalf of the Board

Greg Keefe, Director *Don Zwicker*, Director

Statement of Revenue, Expenditure and Reserve Fund

Year ended March 31, 2008, with comparative figures for 2007

	2008	2007
Revenue		
Interest on loans to units	$ 34,324,492	$ 33,077,953
Interest on short term investments	263,791	240,185
Recovery of issue costs	433,596	350,685
Reserve fee	560,162	379,101
Sale of services	5,000	
	35,587,041	34,047,924
Expenditure:		
Interest on debenture debt and short term loans	34,325,941	33,075,297
Debenture issue expenses	431,979	349,528
Administrative expenses	500,560	378,555
	35,258,480	33,803,380
Excess of revenue over expenditures	328,561	244,544
Reserve fund, beginning of year	5,611,921	5,367,377
Reserve fund, end of year	$ 5,940,482	$ 5,611,921

See accompanying notes to the financial statements.

Statement of Cash Flows

Year ended March 31, 2008, with comparative figures for 2007

	2008	2007
Cash provided by (used for)		
Operations:		
Excess of revenue over expenditures	$ 328,561	$ 244,544
Items not involving cash:		
Amortization of fair value adjustment on loans to units	(109,226)	(153,215)
Amortization of fair value adjustment on debenture debt	109,868	153,824
Increase in employee obligations	7,770	7,116
Change in non cash operating working capital (note 6(b))	43,047	(96,487)
	380,020	155,782
Financing:		
Issue of debentures	140,041,000	108,314,650
Principal payments on debenture debt	(92,662,848)	(87,177,723)
	47,378,152	21,136,927
Investments:		
Issue of loans to units	(140,040,621)	(108,314,265)
Principal received on loans to units	92,686,851	87,451,864
	(47,353,770)	(20,862,401)
Increase in cash and cash equivalents	404,402	430,308
Cash and cash equivalents, beginning of year	5,753,494	5,323,186
Cash and cash equivalents, end of year	$ 6,157,896	$ 5,753,494

Supplemental cash flow information (note 6)

See accompanying notes to the financial statements.

Notes to the Financial Statements

Year ended March 31, 2008

The Corporation was created by the Municipal Finance Corporation Act which was proclaimed on July 31, 1979. The Corporation began operations on January 1, 1980 and has a March 31 fiscal year end. The object of the Corporation is to provide financing of approved capital projects for municipalities, municipal enterprises, regional school boards, and hospitals through a central borrowing authority. The Corporation is not subject to provincial or federal taxes.

1. Significant accounting policies:

(a) Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks, short term deposits with the Province of Nova Scotia with maturities of generally three months or less and any short term loans to municipal units.

(b) Loans to units

Loans to units are recorded at amortized cost.

(c) Debentures

Debentures are recorded at amortized cost.

(d) Reserve Fund:

The Reserve Fund was created from accumulated surpluses and interest on funds which had been advanced by the Province of Nova Scotia and interest on other surplus monies. The purpose of the Reserve Fund is to provide a capital base for the Corporation, as well as to provide funds which may be required for administrative purposes and timing differences.

(e) Basis of presentation:

The Corporation recognizes income and expenses on an accrual basis.

(f) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

2. Change in accounting policy:

a) Effective April 1, 2007, the Corporation adopted the Canadian Institute of Chartered Accountants' Handbook Section 3855 Financial Instruments–Recognition and Measurement. Under this section all of the Corporation's loans to units and debentures payable are classified as loans and receivables and are accounted for on the amortized cost basis. The adoption of the accounting policy has been applied prospectively without restatement of the prior year's amounts.

b) The following summarizes a future accounting change that will be relevant to the Corporation's financial statements subsequent to March 31, 2008:

– The CICA has issued two new accounting standards on financial instruments that revise and enhance the current disclosure requirements but do not change the existing presentation requirements for financial instruments. These new standards will be effective for the Corporation commencing April 1, 2008. The new disclosures will provide additional information on the nature and extent of risks arising from financial instruments to which the Corporation is exposed and how it manages those risks.

3. Loans to units:

(a) Loans to municipal units in Nova Scotia are made on the security of their debentures and are due in annual instalments for periods up to a maximum of twenty years. Interest rates on the loans range from 1.0% to 6.875%. The fair value of loans to units as at March 31, 2008 is $718,536,450.

	2008	2007
Loans to units	**$ 689,272,401**	$ 641,809,405
Less current portion	**90,593,470**	92,686,851
	$ 598,678,931	$ 549,122,554

(b) Principal payments receivable from units and debentures payable in each of the next five years are as follows:

	Loans to units	Debentures payable
2009	$ 90,593,470	$ 90,596,807
2010	86,067,811	86,129,144
2011	72,401,913	72,407,942
2012	67,545,153	67,544,287
2013	63,524,300	63,530,274

4. Debentures payable

The debenture debt outstanding at March 31, 2008 totalling $689,307,489 (2007 $641,819,469) is in Canadian funds and is fully guaranteed by the Province of Nova Scotia, with the exceptions of Series "AI" and the "FCM" loans which are private placements.

Series	Date issued	Maturity date	Interest rate	Amortized cost of debt outstanding	Fair value
AP*	Jan. 30/98	2009 to 2019	5.750-6.125	$ 30,359,715	$ 33,574,857
AQ	May 15/98	2008	5.500	5,409,800	5,430,954
AR*	Dec. 1/98	2008	5.625	13,137,689	13,387,871
AS*	May 17/99	2008 to 2009	5.375	16,501,185	16,882,305
AI	May 28/99	2008 to 2015	1.000	1,350,000	1,228,545
AU*	Dec. 22/99	2008 to 2009	6.625-6.750	10,954,420	11,488,480
AV*	June 1/00	2008 to 2010	6.875	8,783,559	9,241,531
AW*	Nov. 9/00	2008 to 2010	6.250-6.375	10,155,687	10,784,773
AX*	May 29/01	2008 to 2011	6.000-6.250	14,646,429	15,509,100
AY*	Nov. 7/01	2008 to 2011	5.500-6.000	8,956,359	9,509,412
AZ*	May 15/02	2008 to 2012	5.625-6.125	29,246,671	31,086,641
BA*	Nov. 7/02	2008 to 2017	5.000-6.000	16,547,297	17,498,575
BB*	Jan. 9/03	2008 to 2023	5.913	9,440,847	10,432,145
BC*	May 28/03	2008 to 2018	4.625-5.750	31,453,160	33,040,896
BD*	Oct. 15/03	2008 to 2018	4.000-5.375	14,132,855	14,746,969
BE*	June 10/04	2008 to 2019	4.150-5.750	19,161,631	20,137,665
BF*	Sept. 1/04	2008 to 2024	4.335-5.940	93,500,000	99,843,762
BG*	Nov. 25/04	2008 to 2019	4.065-5.325	21,706,000	22,531,155
BH*	June 1/05	2008 to 2020	3.430-4.880	45,581,000	46,541,362
BI*	Nov. 22/05	2008 to 2020	3.870-4.830	48,603,000	49,591,151
BJ*	June 1/06	2008 to 2021	4.285-5.080	47,237,000	48,861,064
BK*	Oct. 24/06	2008 to 2021	4.095-4.590	51,363,000	51,827,216
FCM A	Oct. 31/06	2008 to 2016	2.550	747,720	708,317
FCM B	Mar. 5/07	2009 to 2017	2.620	291,465	275,334
BL*	June 1/07	2008 to 2022	4.380-4.770	62,430,000	63,683,813
BM*	Oct. 17/07	2008 to 2022	4.577-5.210	77,611,000	80,730,784
				689,307,489	718,574,677
Less current portion (note 3b)				90,596,807	
				$ 598,710,682	$ 718,574,677

* Placed directly with the Province of Nova Scotia. Interest is payable semi-annually, except for Series "AI", which is payable annually.

5. Employee obligations:

(a) Public Service Awards

As at March 31, 2008, the Corporation has recorded a liability in the amount of $95,406 (2007 $87,636) in respect of the provincial public service award for the employees of the Corporation.

(b) Employee future benefits/pension: Permanent employees participate in the Nova Scotia Public Service Superannuation Fund (the "Plan"), a contributory defined benefit pension plan administrated by the Province of Nova Scotia, which provides pension benefits based on length of service and earnings. Contributions to the plan are required by both the employees and the employer. Total employer contributions for 2008 were $22,296 (2007 $17,218) and are recognized as an expense in the period. The Corporation is not responsible for any under funded liability, nor does the Corporation have any access to any surplus that may arise in this Plan.

6. Supplemental cash flow information:

(a) Cash and cash equivalents include:

	2008	2007
Cash	$ 1,797,096	$ 126,494
Short term investments	4,360,800	5,627,000
	$ 6,157,896	$ 5,753,494

The Corporation holds short term investments in the form of a Province of Nova Scotia promissory note and three short term municipal loans to units. The note matures on April 1, 2008 with an interest rate of 3.71%. The short term municipal loans to units are to the Town's of Stewiacke and Clark's Harbour, and the District of Clare. These municipal loans carry an interest rate of prime plus 1%. As of March 31, 2008 the interest rate was 4.25%.

(b) Change in non cash working capital:

	2008	2007
Accrued interest receivable	$ (972,204)	$ (138,203)
Other receivables	67	(711)
Accounts payable	88,614	(258)
Accrued interest payable	969,070	140,587
Due to municipal units	(42,500)	(97,902)
	$ 43,047	$ (96,487)

(c) Supplemental cash flow information

	2008	2007
Interest paid	$ 33,247,003	$ 32,780,885
Interest received	$ 33,506,853	$ 33,018,126

7. Financial instruments:

(a) Fair value

The fair values of cash and cash equivalents, accrued interest receivable, other receivables, accounts payable, accrued interest payable and due to municipal units are assumed to approximate their carrying amounts because of their short term to maturity. The fair value of the loans to units (note 3) and debentures payable (note 4) has been calculated using future cash flows (principal and interest) at current market rates available to the Corporation for the same or similar instruments.

(b) Interest rate risk

The Corporation's mandated rate of interest charged on loans to units is directly matched to its cost of borrowing, thereby providing a hedge against equity erosion.

(c) Credit risk

Due to existing statutory provision for the recovery of any defaults by units, an allowance for doubtful accounts is not required.

It is management's opinion that the Corporation is not exposed to significant interest or credit risks arising from financial instruments.

8. Trust funds under administration:

The Corporation has no Trust Funds under its administration for the year ended March 31, 2008.

9. Comparative figures:

Certain 2007 comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

Nova Scotia